Government of the District of Columbia

Department of Insurance, Securities and Banking

| William P. White Commissioner | |
|----------------------------------|---------------------------------------------------------|
| In the matter of: |) |
| JP Morgan Chase & Co., |) ADMINISTRATIVE CONSENT ORDER ORDER NO. SB-CO-11-11 |
| Respondent |)) |

WHEREAS, certain affiliates of JP Morgan Chase & Co. are broker-dealers registered in the District of Columbia; and

WHEREAS, a multi-state task force, comprised of state securities regulators, including the Department of Insurance, Securities, and Banking ("Department"), conducted an investigation into the marketing and sale of auction rate securities ("ARS") by JP Morgan Chase & Co. and its subsidiaries and affiliates, including J.P. Morgan Securities Inc., Chase Investment Services Corporation, and Bear Stearns & Co. and affiliates (hereinafter "JPMorgan")¹, during the period of approximately January 2006 through the present; and

WHEREAS, JPMorgan has cooperated with regulators conducting the investigation by responding to inquiries, providing documentary evidence and other materials, and providing regulators with access to facts relating to the investigation; and

WHEREAS, JPMorgan has advised regulators that it desires to settle and resolve the investigations without admitting or denying the allegations set forth below; and

¹ The investigation did not involve WaMu Investments Inc., which JPMorgan acquired on September 25, 2008.

WHEREAS, JPMorgan agrees to take certain actions described herein and to make certain payments; and

WHEREAS, JPMorgan elects to permanently waive any right to a hearing and appeal under the District of Columbia Administrative Procedure Act, D.C. Official Code §§ 2-509(a) and 2-510(a) (2001); the Rules of Practice and Procedures for Hearings in the District of Columbia, 26 DCMR §§ B300 *et seq.*; the Enforcement-Administrative provisions of D.C. Official Code § 31-5606.02(b); and the Judicial Review provisions of D.C. Official Code § 31-5608.03(a), with respect to this Administrative Consent Order ("Consent Order");

NOW, THEREFORE, the Commissioner of the Department, as administrator of the Securities Act of 2000, effective September 29, 2000 (D.C. Law 13-203, D.C. Official Code §§ 31-5601.01 *et seq.* (2001)) ("Act"), hereby enters this Consent Order, pursuant to D.C. Official Code § 31-5607.01.

I. FINDINGS OF FACT

- 1. JPMorgan admits the jurisdiction of the Department, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Consent Order, and consents to the entry of this Consent Order by the Department.
- 2. ARS are financial instruments that include auction preferred shares of closed-end funds, municipal auction rate bonds, and student loan-backed auction rate bonds. While ARS are all long-term instruments, one significant feature of ARS (which historically provided the potential for short-term liquidity) is the interest/dividend reset through periodic auctions. If an auction is successful (i.e., there are enough buyers for every ARS being offered for sale at the auction), investors are able to sell their ARS on a short-term basis. If, however, auctions "fail"

required to hold all or some of their ARS until the next successful auction in order to liquidate their funds.

Marketing and Sales of ARS to Investors

- 3. Although JPMorgan was aware of increasing strains in areas of the ARS market during the approximate six (6) months prior to the mass failure, JPMorgan failed to ensure that all of its registered representatives made appropriate disclosures to customers regarding the nature and risks of ARS. Certain JPMorgan employees stated that ARS were liquid, safe, short-term investments and did not highlight the risk that, in the event of a failed auction, the securities might become illiquid.
- 4. JPMorgan used the proprietary name, M-Stars or Municipal Short Term ARS ("MSTARS"), in marketing ARS. This could have led certain investors to conclude that ARS were short-term instruments. In fact, ARS were not simply "short-term" instruments. For example, certain student loan MSTARS had maturities in the year 2039 and full liquidity was only available at an auction if the auction was successful.
- 5. Starting in the Fall of 2007, demand for certain ARS continued to erode and JPMorgan's ARS inventory grew significantly. JPMorgan did not discuss the increasing risks of owning or purchasing ARS with all of its customers.
- 6. In February 2008, JPMorgan stopped uniformly supporting auctions for which it acted as the sole or lead broker. Without the benefit of support bids from broker-dealers, the ARS market collapsed, leaving certain investors who had believed that these securities were liquid, safe, short-term investments appropriate for managing short-term cash needs, holding long-term securities that could not be sold at par value.
 - 7. JPMorgan engaged in practices prohibited by the Act.

Failure to Supervise Agents who Sold ARS

- 8. JPMorgan did not provide all its sales or marketing staff with the training and information necessary to adequately explain these products or the mechanics of the auction process to their customers.
- 9. Not all of JPMorgan's registered associated persons were adequately educated in the ARS products they were selling.
 - 10. JPMorgan failed to reasonably supervise all its employees, by among other things:
 - a. failing to provide adequate training to all its registered agents regarding ARS by, among other things:
 - failing to provide to all of its registered agents timely and comprehensive sales and marketing literature regarding ARS and the mechanics of the auction process;
 - ii. failing to provide to all of its registered agents all pertinent information concerning the ARS product;
 - iii. failing to provide to all of its registered agents all pertinent information regarding the state of the market prior to the mass auction failures in mid-February, 2008; and
 - b. failing to review ARS transactions in accounts of certain customers who needed liquidity; and
 - failing to ensure that all its registered personnel were providing adequate information regarding ARS to its customers.

II. CONCLUSIONS OF LAW

The Department has jurisdiction over this matter pursuant to D.C. Official Code § 31-5606.01(a)(1).

- 1. As described in the Findings of Fact above, JPMorgan failed to supervise all its agents and employees, in violation of D.C. Official Code § 31-5602.07(a)(12); and violated D.C. Official Code § 31-5602.07(a)(9).
 - a. As a result, the Department finds this Consent Agreement and the following relief appropriate, in the public interest, and consistent with the Act.

III. ORDER

On the basis of the Findings of Fact, Conclusions of Law, and JPMorgan's consent to the entry of this Consent Order,

IT IS HEREBY ORDERED:

- 1. Entry of this Consent Order concludes the investigation by the Department and any other action that the Department could commence under applicable District of Columbia law on behalf of the Department as it relates to JPMorgan, relating to certain sale and marketing of ARS at JPMorgan; provided, however, that excluded from and not covered by this paragraph are any claims by the Department arising from or relating to violations of the provisions contained in this Consent Order.
- 2. This Consent Order is entered into solely for the purpose of resolving the referenced multi-state investigation and is not intended to be used for any other purpose.
- 3. JPMorgan will CEASE AND DESIST from violating D.C. Official Code § 31-5602.07(a)(9) and D.C. Official Code § 31-5602.07(a)(12), and will comply with the Act.

- 4. Within ten days of the date of this Consent Order, JPMorgan shall pay the sum of SIXTY SIX THOUSAND, EIGHT HUNDRED SIXTY SEVEN DOLLARS AND FIFTY ONE CENTS (\$66,867.51) to the Department as a civil monetary penalty pursuant to D.C. Official Code § 31-5606.02(b)(4), to be deposited in the District of Columbia's GENERAL FUND, made payable to the D.C. Treasurer, pursuant to D.C. Official Code § 1-204.50. This amount constitutes the District of Columbia's proportionate share of the state settlement amount of \$25 Million Dollars (\$25,000,000.00).
- 5. In the event another state securities regulator determines not to accept the recommendation of the North American Securities Administrators' Association ("NASAA") Task Force and does not enter into a settlement with JPMorgan that follows the terms of the Settlement Term Sheet signed by JPMorgan, NASAA, and the state of Florida, Office of Financial Regulation, on August 14, 2008, the total amount of the Department's payment shall not be affected, and shall remain at \$66,867.51.
- 6. JPMorgan shall comply (and, to the extent the Settlement Term sheet described herein required action to be taken prior to the date of this Consent Order, has already complied) with the requirements of the Settlement Term Sheet executed August 14, 2008, which provides:

a. Individual Investors

As soon as practicable following the execution of the Settlement Term Sheet, JPMorgan will offer to buy back at par ARS that since February 12, 2008, have not been auctioning from individual investors who purchased those ARS from JPMorgan prior to

February 12, 2008 ("Individual Investors"). For purposes of the Settlement, charities and small to medium-sized businesses with account values and household values up to \$10 million will also be treated as JPMorgan Individual Investors. The term Individual Investors does not include senior management of JPMorgan and its predecessors and JPMorgan financial advisors/registered representatives. The buybacks will have been completed no later than November 12, 2008.

JPMorgan will provide notice to customers of the settlement terms and JPMorgan will establish a dedicated telephone assistance line, with appropriate staff, to respond to questions from customers concerning the terms of the settlement.

b. Relief for Investors Who Sold Below Par

No later than November 12, 2008, any JPMorgan Individual Investor that JPMorgan could have reasonably identified who sold ARS below par between February 12, 2008, and announcement of the Settlement will have been paid the difference between par and the price at which the investor sold the ARS.

c. Consequential Damages Claims

No later than November 12, 2008, JPMorgan shall have notified those JPMorgan clients who own ARS, pursuant to the terms of the Settlement, that a public arbitrator (as defined by Section 12100(u) of the NASD Code of Arbitration Procedures for Customer Disputes, eff. April 16, 2007), under the auspices of the Financial Industry Regulatory Authority ("FINRA"), will be available for the exclusive purpose of arbitrating any JPMorgan Individual Investor's consequential-damages claim.

Arbitration shall be conducted by public arbitrators and JPMorgan will pay all applicable forum and filing fees. Any JPMorgan Individual Investors who choose to pursue such

claims shall bear the burden of proving that they suffered consequential damages and that such damages were caused by investors' inability to access funds consisting of investors' ARS holdings at JPMorgan. JPMorgan shall be able to defend itself against such claims; provided, however, that JPMorgan shall not contest in these arbitrations liability related to the sale of ARS. Special or punitive damages shall not be available in the arbitration proceedings.

d. Institutional Investors

JPMorgan shall endeavor to continue to work with issuers and other interested parties, including regulatory and governmental entities, to expeditiously provide liquidity solutions for institutional investors not covered by paragraph 6.a. above, that continue to hold ARS purchased from JPMorgan ("Institutional Investors").

Within 45 days of the end of each quarter beginning with a report covering the quarter ended December 31, 2008 (due on February 14, 2009), and continuing through and including a report covering the quarter ended December 31, 2009 (due on February 14, 2010), JPMorgan shall have submitted a quarterly written report detailing JPMorgan's progress with respect to its obligations pursuant to this Consent Order and outlining the efforts in which JPMorgan has engaged and the results of those efforts with respect to JPMorgan's institutional investors' holdings in ARS. JPMorgan shall confer with William F. Reilly, Bureau Chief, Bureau of Securities Regulation, of the state of Florida, Office of Financial Regulation, as the lead NASAA member on behalf of all the states, on a quarterly basis to discuss JPMorgan's progress to date. Such quarterly reports and conferences/meetings shall continue until the first quarter of 2010. Following every quarterly meeting, the state of Florida, Office of Financial Regulation, shall advise JPMorgan of any concerns regarding JPMorgan's progress in providing liquidity solutions for Institutional Investors and, in response, JPMorgan shall detail the steps that JPMorgan plans to

implement to address such concerns. The reporting or meeting deadlines set forth above may be amended with written permission from the state of Florida, Office of Financial Regulation.

e. Relief for Municipal Issuers

JPMorgan shall refund underwriting fees JPMorgan has received from municipal auction rate issuers that issued such securities through JPMorgan in the initial primary market between August 1, 2007, and February 12, 2008, and refinanced those securities through JPMorgan after February 12, 2008, through the date this Consent Order is executed by JPMorgan.

- f. In consideration of the Settlement
- The Department will:
- i. Terminate its investigation with respect to JPMorgan's marketing and sale of ARS to Individual Investors defined in paragraph 6.a. above. However, nothing herein limits the ability of the Department in pursuing any investigation relating to any party other than JPMorgan.
- ii. Refrain from taking legal action, excluding entry of this Consent Order,
 against JPMorgan with respect to its institutional investors until November 12, 2008; the
 Department shall issue continuances of that period as it deems appropriate; and
 - iii. Accept payment of \$66,867.51 as its portion of the above-mentioned \$25 million penalty, to address all underlying conduct relating to the marketing and sale of ARS. The Department will not seek additional monetary penalties from JPMorgan relating to such conduct.
 - iv. If payment is not made by JPMorgan or if JPMorgan materially defaults in any of its obligations set forth in this Consent Order and fails to cure such a

default reasonably after ten (10) days notice from the Department, notwithstanding any other provision of District of Columbia law, the Department may vacate this Consent Order at its sole discretion and without opportunity for administrative hearing.

- any of its affiliates or current or former employees shall be subject to any disqualifications contained in the federal securities law, the rules and regulations thereunder, the rules and regulations of self regulatory organizations, or various states' securities laws including any disqualifications from relying upon the registration exemptions or safe harbor provisions. In addition, this Consent Order is not intended to form the basis for any such disqualifications.
- 7. Nothing herein shall preclude the District of Columbia, its departments, agencies, boards, commissions, authorities, political subdivisions, and corporations (collectively "State Entities"), other than the Department and only to the extent set forth in paragraph 1 above, and the officers, agents, or employees of State Entities from asserting any claims, causes of action, or applications for compensatory, nominal and/or punitive damages, administrative, civil, criminal, or injunctive relief against JPMorgan in connection with certain marketing and sales practices of ARS at JPMorgan.
- 8. Except in an action by the Department to enforce the obligations of JPMorgan in this Consent Order, this Consent Order may neither be deemed nor used as an admission of or evidence of any alleged fault, omission, or liability of JPMorgan in any civil, criminal, arbitration, or administrative proceeding in any court, administrative agency, or tribunal. For any person or entity not a party to this Consent Order, this Consent Order does not limit or create any private rights or remedies against JPMorgan including, without limitation with respect to the

use of any e-mails or other documents of JPMorgan or of others concerning the marketing and/or sales of ARS, limit or create liability of JPMorgan, or limit or create defenses of JPMorgan to any claims.

- 9. This Consent Order shall not disqualify JPMorgan or any of its affiliates or current or former employees from any business that they otherwise are qualified or licensed to perform under applicable state law and is not intended to form the basis for any disqualification.
- 10. Any dispute related to this Consent Order shall be construed and enforced in accordance with, and governed by, the laws of the District of Columbia without regard to any choice of law principles.
- Order, voluntarily waives its right to a hearing on this matter and to judicial review of the Consent Order under the District of Columbia Administrative Procedure Act, D.C. Official Code §§ 2-509(a) and 2-510(a) (2001); the Rules of Practice and Procedures for Hearings in the District of Columbia, 26 DCMR §§ B300 *et seq.*; and the Act, D.C. Official Code §§ 31-5606.02(b) and 31-5608.03(a).
- 12. Respondent, JPMorgan, enters into this Consent Order voluntarily and represents that no threats, offers, promises, or inducements of any kind have been made by the Department or any member, officer, employee, agent, or representative of the Department to induce JPMorgan to enter into this Consent Order other than as set forth in this Consent Order.
- 13. This Consent Order shall be binding upon JPMorgan and its successors and assigns as well as to successors and assigns of relevant affiliates with respect to all conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of this Department in the District of Columbia, this day of ________, 2011.

William P. White, Commissioner

CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY JPMORGAN

1. JPMorgan hereby acknowledges that it has been served with a copy of the foregoing Consent Order, has read the foregoing, is aware of its right to a hearing and appeal in this matter, and has waived the same.

2. JPMorgan admits the jurisdiction of the Department, neither admits nor denies the Findings of Fact and Conclusions of Law contained in the foregoing Consent Order, and consents to entry of this Consent Order by the Department as settlement of the issues contained in the foregoing Consent Order.

3. JPMorgan agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal, or local tax for any administrative monetary penalty that JPMorgan shall pay pursuant to this Consent Order.

4. JPMorgan states that no promise of any kind or nature whatsoever that is not reflected in this Consent Order was made to it to induce it to enter into this Consent Order and that it has entered into this Consent Order voluntarily.

5. Michael O'Connor represents that he/she is A Senior Vice President of JPMorgan and that, as such, has been authorized by JPMorgan to enter into this Consent Order for and on behalf of JPMorgan.

Dated this 25 day of May, 2011.

JPMORGAN

By Mill Ren Its Sens Via Part

| State of New York County of New York SUBSCRIBED AND SWORN TO before | me this 25 day of May , 2011, by |
|-----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| Michael O'CONNO | Susan Manamara Notary Public |
| My commission expires: | Notary Public, State of New York No. 43-4836571 Qualified in Richmond County Certificate Filed in New York County Commission Expires July 31, |

EXHIBIT "A"

1. Settlement Term Sheet dated August 14, 2008.

STATE OF FLORIDA OFFICE OF FINANCIAL REGULATION

| IN RE: JPMORGAN CHASE & CO., |) Administrative Proceeding No.: 0403-S-10/08 |
|---------------------------------|-----------------------------------------------|
| Respond | lent.) |
| |) |
| |) |
| |) |
| |) |

Settlement Term Sheet

The North American Securities Administrators Association ("NASAA") established a task force (the "NASAA Task Force") for purposes of investigating the sale of auction rate securities by various broker-dealers including JPMorgan Chase & Co. ("JPMorgan"). The following represents the terms under which JPMorgan, on behalf of itself and its affiliates, has agreed to settle with the Office of Financial Regulation of the State of Florida and which the NASAA Task Force will recommend for approval by the jurisdictions identified in Appendix A (the "States"). The Settlement will be embodied in administrative and/or civil settlement actions with each of the States, whereby JPMorgan, without admitting or denying any allegations or findings, will agree to the following:

I. Individual Investors

As soon as practicable following the execution of this term sheet, JPMorgan will offer to buy back at par auction rate securities that since February 12, 2008 have not been auctioning from individual investors who purchased those auction rate securities from JP Morgan prior to February 12, 2008 ("Individual Investors"). For purposes of the Settlement, charities and small to medium sized businesses with account values and household values up to Sl0 million will also he treated as JPMorgan Individual Investors. The term individual Investors does not include senior management of JPMorgan and its predecessors and JPMorgan financial advisors/registered representatives.

The buybacks will be completed no later than November 12, 2008.

JPMorgan will provide notice to customers of the settlement terms and JPMorgan will establish a dedicated telephone assistance line, with appropriate staff, to respond to questions from customers concerning the terms of the settlement.

II. Relief for Investors Who Sold Below Par

No later than November 12, 2008, any JPMorgan Individual Investor that JP Morgan can reasonably identify who sold auction rate securities below par between February 12, 2008 and

announcement of the Settlement will be paid the difference between par and the price at which the investor sold the auction rate securities.

III. Consequential Damages Claims

No later than November 12, 2008, JPMorgan shall notify those JPMorgan clients who on auction rate securities, pursuant to the terms of the Settlement, that a public arbitrator (as defined by section 12100(u) of the NASD Code of Arbitration Procedures for Customer Disputes, eff April 16, 2007), under the auspices of FINRA, will be available for the exclusive purpose of arbitrating any JPMorgan Individual Investor's consequential-damages claim. Arbitration shall be conducted by public arbitrators and JPMorgan will pay all applicable forum and filing fees. Any JPMorgan Individual Investors who choose to pursue such claims shall bear the burden of proving that they suffered consequential damages and that such damages were caused by investors' inability to access funds consisting of investors' auction rate securities holdings at JPMorgan shall be able to defend itself against such claims; provided, however, that JPMorgan shall not contest in these arbitrations liability related to the sale of auction rate securities. Special or punitive damages shall not be available in the arbitration proceedings.

IV. Institutional Investors

JPMorgan shall endeavor to continue to work with issuers and other interested parties, including regulatory and governmental entities, to expeditiously provide liquidity solutions for institutional investors not covered by Section I. above.

Beginning November 12, 2008 and then quarterly after that, JPMorgan shall submit a written report to the States outlining the efforts in which JP Morgan has engaged and the results of those efforts with respect to JPMorgan institutional investors' holdings in auction rate securities. JPMorgan shall confer with the States no less frequently than quarterly to discuss JPMorgan's progress to date. Such quarterly meetings shall continue at the States' request until no later than December 31, 2009. Following every quarterly meeting, the States shall advise JP Morgan of any concerns and, in response, JP Morgan shall discuss how JP Morgan plans to address such concerns.

V. Relief for Municipal Issuers

JPMorgan shall refund refinancing fees JPMorgan has received from municipal auction rate issuers that issued such securities through JPMorgan in the initial primary market between August 1, 2007 and February 12, 2008, and refinanced those securities through JP Morgan after February 12, 2008.

VI. Charges

Failure to supervise and/or unethical practices (or substantially equivalent non-fraud based terms under relevant state statutes).

VII. Penalties

Payment of a total of \$25 million to the State of New York and the States, which shall be allocated at the discretion of State of New York and the States, to address all underlying conduct relating to the sale of auction rate securities.

VIII. Investigative Costs

Furthermore, JP Morgan shall pay \$15,000.00 to NASAA as reimbursement for investigative costs incurred by NASAA.

IX. In consideration of the Settlement

The States will:

- a. Terminate its investigation with respect to JPMorgan's marketing and sale of auction rate securities to Individual Investors defined in Section 1 herein, However, nothing herein limits the ability of the States in pursuing any investigation relating to any party other than JPMorgan.
- b. Refrain from taking legal action, excluding the Administrative Consent Order which embodies this settlement, against JPMorgan with respect to its institutional investors until [November 12, 2008; The States shall issue continuances of that period as it deems appropriate; and
- c. Payment of the above-mentioned \$25 million penalty to address all underlying conduct relating to the marketing and sale of auction rate securities. The States will not seek additional monetary penalties relating to such conduct.

WHEREFORE, the following signatures are affixed hereto on the dates set forth below.

NORTH AMERICAN SECURITIES ADMINISTRATORS' ASSOCIATION

By: /s/ Karen Tyler

Karen Tyler North Dakota Securities Commissioner & NASAA President (solely as observer and not as a party) Dated: August 14, 2008

OFFICE OF FINANCIAL REGULATION OF THE STATE OF FLORIDA

By: /s/ Richard A. White

Name: Richard A. White

Title: Director, Division of Securities

Dated: August 14, 2008

JP MORGAN CHASE & CO.

By: /s/ Mark B. Segall

Name: Mark B. Segall

Title: Senior Vice President Dated: August 14, 2008

APPENDIX

ALABAMA

ALASKA

ARIZONA

ARKANSAS

CALIFORNIA

COLORADO

CONNECTICUT

DELAWARE

DISTRICT OF COLUMBIA

FLORIDA

GEORGIA

HAWAII

IDAHO

ILLINOIS

INDIANA

IOWA

KANSAS

KENTUCKY

LOUISIANA

MAINE

MARYLAND

MASSACHUSETTS

MICHIGAN

MINNESOTA

MISSISSIPPI

MISSOURI

MONTANA

NEBRASKA

NEVADA

NEW HAMPSHIRE

NEW JERSEY

NEW MEXICO

NORTH CAROLINA

NORTH DAKOTA

OHIO

OKLAHOMA

OREGON

PENNSYLVANIA

PUERTO RICO

RHODE ISLAND

SOUTH CAROLINA

SOUTH DAKOTA

TENNESSEE